

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Middleville Housing Commission	County Barry County
Fiscal Year End June 30, 2006	Opinion Date November 10, 2006	Date Audit Report Submitted to State February 12, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☐ ☒ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

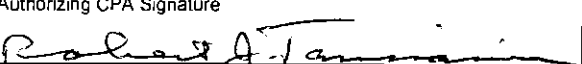
We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Robert J. Tauriainen CPA		Telephone Number	
Street Address 25140 Lahser Road, Suite 141		City Southfield	State Mi
		Zip 48033	
Authorizing CPA Signature 	Printed Name Robert J. Tauriainen	License Number 1101008083	

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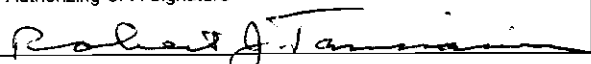
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Member of

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AGA

ROBERT J. TAURIAINEN

CERTIFIED PUBLIC ACCOUNTANT

25140 Lahser Road, Suite 141

Southfield, Michigan 48033-6310

Phone (248) 476-8784 – Fax (248) 477-0545

Board of Commissioners
Middleville Housing
Commission
Middleville, Michigan

Department of Housing &
Urban Development
Office of Public Housing
Detroit, Michigan

Independent Auditor's Report

I have audited the accompanying basic financial statements of the Middleville Housing Commission, Middleville, Michigan, as of and for the year ended June 30, 2006 as listed in the table of contents. These financial statements are the responsibility of the Middleville Housing Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

Except as discussed in the following paragraph, I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

As discussed in finding number 1, I was unable to test the service organizations internal controls placed in operation for operating effectiveness; nor was I able to satisfy myself by other auditing procedures.

In my opinion, except for the effects of the matters discussed in the preceding paragraph, the basic financial statements, referred to above present fairly, in all material respects, the financial position of the Middleville Housing Commission, as of June 30, 2006, and the results of its operations and the cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, I have also issued my report dated November 10, 2006 on my consideration of the Middleville Housing Commission's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

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Board of Commissioners
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Department of Housing &
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Detroit, Michigan

Independent Auditor's Report

The Management's Discussion and Analysis on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America and the Governmental Accounting Standards Board (GASB). I have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming an opinion on the basic financial statements. The accompanying Financial Data Schedule is presented for purposes of additional analysis as required by the Department of Housing and Urban Development and is not a required part of the basic financial statements. The Financial Data Schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Certified Public Accountant

November 10, 2006

Middleville Housing Commission
Management's Discussion and Analysis
June 30, 2006

As Management of the Commission, we provide readers of the financial statements this overview and analysis of the financial activities of the Commission for the FYE June 30, 2005 compared to FYE June 30, 2006. This document is prepared in accordance with Government Accounting Standards Board Statement No. 34. Please consider the information here in conjunction with the audited financial statements in this report.

FINANCIAL HIGHLIGHTS

The Authority's net assets decreased by 6% as described below. The revenues are primarily subsidies and grants from HUD. The subsidies received are based on a pre-approved amount from HUD. Grants are drawn down based on need against a preauthorized funding level

The largest portion of the net assets reflects its investment in capital assets such as land, buildings, and equipment. These assets are used to provide housing services to its tenants; consequently they are not available for future spending. Total revenues increased primarily due to the capital fund program.

MHC's current assets exceeds their current liabilities by \$114,175

Capital Assets decreased by \$55,453 including accumulated depreciation

Agency revenues increased by \$1,090 excluding Capital Funds

Operating expense increased 3% in 2006 above the 2005 expense.

The authority has no long-term debt

ECONOMIC FACTORS

The Middleville Housing Commission is primarily dependent upon operations funding from HUD. MHC is affected by the Federal budget more than by local economic conditions.

The Capital fund programs have remained relatively stable. These funds are used for modernization of the properties including administrative fees for the modernizing.

The following factors affecting the Commission are:

- ☐ The state of the economy
- ☐ Federal funding provided by Congress to HUD

Middleville Housing Commission
Management's Discussion and Analysis
June 30, 2006

- ☐ Local labor which can affect salary and wage rates
- ☐ Local recession and employment which can affect incomes
- ☐ Increase in utility rates

USING THIS ANNUAL REPORT

This annual report consists of financial statements that show information about the Housing Commission's most significant funds, Low Rent Senior Housing Program and Public Housing Capital Fund Program.

A user of this report should read the independent auditors' report to determine the level of assurance for each of the other parts of this report.

FINANCIAL STATEMENTS

All funds of the Commission are proprietary funds. Accounting procedures are the same as those for business enterprises. The financial statements of the Commission consist of the following:

Statement of Net Assets – Proprietary Funds. This statement presents everything, which the Commission owns and owes. All assets, including cash, accounts receivable, prepaid expenses and fixed assets are listed and totaled. All liabilities, including amounts due to vendors (accounts payable) and others (other accrued expenses) are listed and totaled. The difference between the total of the assets and the total of the liabilities is the Net Assets of the Commission. Net Assets are also equal to the total of all prior years' net income and losses of the commission including all contributions from HUD.

Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds. This statement records all revenue (income) and expenses. Revenue is categorized by source. Expenses are categorized by type. The excess of revenue over expense is the income for the year. If expenses are greater than revenue, then there is a loss for the year. Income and Expenses are of two types: Operating and Nonoperating. Operating revenue and expenses are those related the normal running of the Commission's operations. Nonoperating revenue and expenses include items outside of the operations and include such items as Depreciation and Capital Grants.

The income or loss for the year, added to the prior years net assets equal the current year's net assets.

These financial statements are consolidated for the different programs of the Commission:

Middleville Housing Commission
Management's Discussion and Analysis
June 30, 2006

LOW INCOME PUBLIC HOUSING

The MHC owns 50 units, all located at one development in the Village of Middleville. The 50 units owned by the Commission consist of senior/disabled housing. The Commission is responsible for the management, maintenance and heat for all units. Annually, the Commission submits a request for funding called Calculation of Operating Fund. The basic concept of this funding is that MHC has an allowable Operating Expense Level, Allowable utilities Expense Level and Audit Costs that becomes the Total Allowable Expenses for the Commission. HUD funds the difference between the Total Allowable Expenses and the amount of rents that the Commission can charge their tenants based on HUD eligibility calculation. These funds are utilized to provide safe, affordable, clean housing to the residents of the Village of Middleville, MI.

CAPITAL FUND PROGRAM

HUD awards this program annually. The purpose of these grants is to maintain the physical improvements of the site and the administrative management to ensure the improvements are completed in the most effective and efficient manner.

Middleville Housing Commission
Management's Discussion and Analysis
June 30, 2006

STATEMENT OF AGENCY WIDE REVENUES, EXPENSES, AND NET ASSETS

REVENUES

	2006	2005	Increase/(decrease)
Tenant Revenues	\$121,579	\$121,349	\$ 230
HUD Operating Fund	\$ 42,996	\$ 47,358	(\$ 4,362)
HUD Capital Fund	\$ 19,708	\$ 47,508	(\$27,800)
Other Income	\$ 6,778	\$ 5,918	\$ 860
TOTAL REVENUES	\$191,061	\$222,133	(\$31,072)

The decrease in revenues was primarily due to decreased HUD Capital Fund subsidies.

EXPENSES

Total Operating Expenses	\$195,339	\$190,232	\$5,107
Extraordinary Maintenance	\$ 14,775	\$ 14,216	\$ 559
Depreciation	\$ 73,000	\$ 69,732	\$3,268
TOTAL EXPENSES	\$283,114	\$274,180	\$8,934

The increase in expense was primarily due to depreciation and utility cost increases.

NET INCOME (LOSS) BEFORE CONTRIB.

(\$92,053)	(\$52,047)	(\$40,006)
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The expected increase in depreciation and utilities costs and the decrease in HUD subsidies created an operating loss.

CAPITAL ASSETS

	2006	2005	Increase/(Decrease)
Land	\$ 134,240	\$ 134,240	\$ 0
Buildings	\$1,858,427	\$1,819,852	\$38,575
Admin Equipment	\$ 33,334	\$ 42,601	(\$ 9,267)
Dwelling Equipment	\$ 47,783	\$ 47,783	\$ 0
Leasehold Improvements	\$ 64,227	\$ 76,562	(\$12,335)

Middleville Housing Commission
Management's Discussion and Analysis
June 30, 2006

Construction in Progress	\$ 0	\$ 9,720	(\$ 9,720)
TOTAL ASSETS	\$2,138,011	\$ 2,130,758	\$ 7,253
Accumulated Depreciation	\$(1,131,949)	\$(1,069,243)	\$ 62,706
TOTAL ASSETS, NET	\$ 1,006,062	\$ 1,061,515	\$ 55,453

COMMISSION-WIDE CONDENSED FINANCIAL STATEMENTS
STATEMENT OF NET ASSETS

CURRENT & OTHER ASSETS	2006	2005	Increase/(Decrease)
Cash & Investments	\$135,122	\$ 136,642	(\$ 1,520)
Other Assets	\$ 11,485	\$ 23,177	(\$11,692)
Capital Assets (Net)	\$1,006,062	\$ 1,061,515	(\$55,453)
TOTAL ASSETS	\$1,152,669	\$1,221,334	(\$68,665)
LIABILITIES			
Accounts Payable	\$ 20,570	\$ 6,244	\$14,326
Current Liabilities	\$ 11,862	\$ 28,977	(\$17,115)
TOTAL LIABILITIES	\$ 32,432	\$ 35,221	(\$ 2,789)
NET ASSETS			
Net Investment/Capital Assets	\$1,006,062	\$1,061,515	(\$55,453)
Unrestricted Assets	\$ 114,175	\$ 124,598	(\$10,423)
TOTAL NET ASSETS	\$1,120,237	\$1,186,113	(\$65,876)

Total Assets for FYE 2006 are \$1,152,669 and for FYE 2005 was \$1,221,334.
This is a decrease of \$68,665.
Total Liabilities decreased by \$2,789.
Net assets declined \$65,876 primarily from depreciation.

Middleville Housing Commission
Management's Discussion and Analysis
June 30, 2006

ANTICIPATED SIGNIFICANT CHANGES

There are no known facts, decisions or changes in conditions, which will have a significant effect on the financial position (Net Assets) or results of operations of the Commission.

ADDITIONAL INFORMATION

Questions concerning this report or request for more information may be addressed to Lillian Stehr, Executive Director, Middleville Housing Commission, 500 Lincoln St., Middleville, MI 49333

Middleville Housing Commission
Statement Of Net Assets
June 30, 2006

Assets

Current assets:	
Cash and cash equivalents	110,442
Investments	24,680
Receivables, net	1,987
Inventories	1,873
Other current assets	7,625
Total current assets	<u>146,607</u>
Noncurrent assets:	
Capital assets:	
Land	134,240
Buildings and equipment	2,003,771
Less accumulated depreciation	(1,131,949)
Capital assets, net	<u>1,006,062</u>
Total assets	<u><u>1,152,669</u></u>

Liabilities

Current liabilities:	
Accounts payables	20,570
Security deposits	11,698
Deferred revenue	164
Total current liabilities	<u>32,432</u>
Total liabilities	<u>32,432</u>

Net Assets

Invested in capital assets, net of related debt	1,006,062
Unrestricted	114,175
Total net assets	<u>1,120,237</u>
Total liabilities and net assets	<u><u>1,152,669</u></u>

See Accompanying notes to financial statements

Middleville Housing Commission
Statement of Revenues, Expenses and Changes in Net Assets
June 30, 2006

Operating revenues:	
Charges to tenants	121,579
Investment income	3,757
Federal sources	62,704
Miscellaneous	3,021
Total operating revenues	<u>191,061</u>
Operating expenses:	
Administrative	58,811
Tenant services	1,166
Utilities	38,590
Maintenance	74,958
General expenses	21,813
Extraordinary maintenance	14,775
Total operating expenses	<u>210,113</u>
Operating income (loss)	<u>(19,052)</u>
Nonoperating expenses:	
Depreciation	73,000
Total nonoperating expenses	<u>73,000</u>
Total expenses	<u>283,114</u>
Net income (loss) before contributions	(92,053)
Capital contributions	17,548
Change in net assets	<u>(74,505)</u>
Total net assets - beginning	1,186,113
Prior period adjustments	8,630
Total net assets - ending	<u><u>1,120,237</u></u>

See Accompanying notes to financial statements

Middleville Housing Commission
Statement of Cash Flows
June 30, 2006

Cash flows from operating activities:

Cash received from tenants	\$120,515
Other operating cash receipts	3,021
Cash paid for operating expenditures	(99,891)
Cash paid to employees for services	(94,700)
Payment in lieu of taxes	<u>(8,765)</u>

Net cash used in operating activities (79,819)

Cash flows from noncapital financing activities:

Operating grants received	<u>74,542</u>
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Net cash provided by noncapital financing activities 74,542

Cash flows from capital and related financing activities:

Capital grants received	17,548
Capital grant and borrowing costs	<u>(17,548)</u>

Net cash provided by (used in) capital and related financing activities - 0

Cash flows from investing activities:

Net (increase) decrease in investments	(24,680)
Interest received (paid)	<u>3,757</u>

Net cash (used) provided in investing activities (20,923)

Net increase (decrease) in Cash and cash equivalents (26,200)

Beginning of period 136,642

End of period 110,442

Middleville Housing Commission
Statement of Cash Flows
June 30, 2006

**Reconciliation of Operating
Income to Net Cash used in
Operating Activities**

Operating Income (loss)	(19,052)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
Interest received	(3,757)
Interest paid on notes payable	(74,542)
Grants	11,838
Decrease (increase) in Prepaid expenses:	
Supplies inventory	(13)
Insurance, Misc. prepaid	(134)
Increase (decrease) in Accounts payable:	
Trade	6,924
Tenant security deposits	(906)
Accrued liabilities:	
Wages and payroll taxes	447
Payment in lieu of taxes	(466)
Deferred revenue:	
Rents paid in advance	<u>(158)</u>
Total adjustments	<u>(60,767)</u>
Net cash provided by (used in) operating activities -	<u><u>(\$79,819)</u></u>

See Accompanying notes to financial statements

Middleville Housing Commission
Notes To Basic Financial Statements
June 30, 2006

(1) Summary of Significant Accounting Policies

The Middleville Housing Commission ("The Authority") is a non-profit corporation which was organized under the laws of the State of Michigan to provide Low-Rent housing for qualified individuals in accordance with the rules and regulations prescribed by the Department of Housing and Urban Development and other Federal Agencies.

Low Rent Public Housing - Low income housing apartment developments. Funding for the developments was acquired through advances from HUD. The objective of the program is to provide decent, safe, and sanitary housing and related facilities for eligible low-income families and the elderly through the Public Housing Authority. Grants are made by HUD to the Authority on the basis of housing needs to ensure the lower income character of the developments operated by the Authority.

Capital Fund Program (CFP) - The objectives of the Modernization Program are to: (1) improve the physical condition of existing public and Indian housing developments; and (2) upgrade the administration and operation of such developments in order to assure that they continue to serve low-income families.

The Authority policy is to prepare its basic financial statements in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the authoritative standard-setting body for the establishment of governmental accounting and financial reporting principles. The more significant of these accounting policies follow.

A. Reporting Entity

All significant activities and organizations on which the Authority exercises oversight responsibility have been included in the Authority's financial statements, for the year ended June 30, 2006. This report includes all of the services provided by the Authority to residents within its boundaries. In evaluating the Authority's reporting entity, in accordance with GASB Statement No. 14, the Authority has included all organizations that make up the Authority's legal entity.

The following criteria regarding manifestation of oversight were considered by the Authority in its evaluation of the Authority organizations and activities:

Financial interdependency - The Authority is responsible for its debts and is entitled to surpluses. No separate agency receives a financial benefit nor imposes a financial burden on the Authority.

Appointment of the government authority - The Authority is governed by a Board of Commissioners, appointed by the local government, and has governance responsibilities over all activities related to Low-Rent housing within that community.

Middleville Housing Commission
Notes To Basic Financial Statements
June 30, 2006

Designation of the Executive Director - The Board of Commissioners have decision making responsibility and the power to designate a Executive Director who administers Authority policies.

Ability to significantly influence operations - The Board of Commissioners have the responsibility to significantly influence operations. This authority includes, but is not limited to, adoption of the budget, control over all assets, including facilities and properties, signing contracts, and developing the programs to be provided.

Accountability of fiscal matters - The responsibility and accountability over all funds is vested in the Board of Commissioners and its designated Executive Director.

Component Units - Consistent with applicable guidance, the criteria used by the Authority to include component units within its reporting entity are financial accountability and the nature and significance of the relationship. At June 30, 2006, the Authority had no component units which met that criteria.

B. Fund Type

The Authority uses enterprise fund accounting to account for its financial position and results of operations. The enterprise fund type was used because the Authority operations are financed and operated in a manner similar to private Business enterprises - where the intent of the Authority is that the costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered through user charges.

C. Measurement Focus and Basis of Accounting

The Authority uses the economic resources measurement focus. Accordingly, all assets and liabilities are recorded on the balance sheet. The reported net assets is segregated into capital assets net of related debt, unrestricted net assets and restricted net assets. Each component of net assets may be used to meet current obligations. Restricted net assets are subject to constraints externally imposed and are reduced by related liabilities. Operating statements present increases (revenues) and decreases (expenses) in net assets. The full accrual basis of accounting is used. Revenues are recognized when they are earned and become measurable and expenses are recognized when incurred, if measurable.

The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Pursuant to GASB Statement No. 20, Accounting and Financial Reporting for

Middleville Housing Commission
Notes To Basic Financial Statements
June 30, 2006

Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, the Housing Authority follows GASB guidance as applicable to proprietary funds and Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

The Authority's basic financial statements consist of a statement of net assets, a statement of revenue, expenses, and changes in net assets, and a statement of cash flows. The Housing Authority uses a single Enterprise Fund to maintain its financial records on an accrual basis.

D. Fixed Assets

The accounting and reporting treatment applied to the fixed assets associated with the financial statements are determined by the Authority's measurement focus and are accounted for in the Authority's enterprise fund.

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated.

Depreciation of all exhaustible fixed assets is charged as an expense against their operations. Accumulated depreciation is reported on the balance sheet. Depreciation is provided over the estimated useful lives using the straight-line method.

E. Cash Equivalents

For purposes of reporting cash flows, all highly liquid investments (including restricted assets) with a maturity of three months or less are considered to be cash equivalents.

F. Investments

Investments are reported at fair value. Investment securities are normally held to mature at par value and adjustments are made to the investment portfolio to reflect increases / (decreases) in gains made.

G. Receivables

All receivables are shown net of an allowance for uncollectible amounts.

H. Inventories and Other Items

Inventories consist of expendable supplies held for consumption. They are valued at cost (first-in, first-out), which is less than the current market value. An expenditure is recorded at the end of the fiscal year to reflect physical counts and supplies used (consumption method).

Middleville Housing Commission
Notes To Basic Financial Statements
June 30, 2006

Certain payments to vendors reflect costs applicable to future periods. These items are recorded as prepaid items.

I. Rental Income

A percentage of tenant income, as determined by HUD is used to determine income from rents and may not represent fair market rent.

J. Income Taxes

No provision for income taxes is recorded in the accounts as the Authority is a non-profit, tax exempt entity under the Internal Revenue Code. The Authority is not subject to Federal or State income taxes, nor is it required to file Federal and State income tax returns.

K. Interest expense

Interest expense on tax free notes and bonds and interest income on the related debt proceeds are capitalized during the project development period.

L. Deferred Revenue

HUD Grants, operating subsidy, HAP subsidy and tenants rents are recognized in the applicable program year.

M. Budgets

An operating budget is adopted each year by the Authority and depending on certain performance indicators, may or may not be approved by the Department of Housing and Urban Development.

N. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the Authority to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

O. Insurance and Risk Management

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Authority has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the insurance coverage in any of the past three fiscal years.

Middleville Housing Commission
Notes To Basic Financial Statements
June 30, 2006

The Authority continues to carry commercial insurance for other risks of loss. There has been no significant reduction in insurance coverage from the coverage in the prior year.

P. Prior Period Adjustments:

The Authority's prior period adjustments are as follows:

Equipment transferred from operations to the Capital Fund Program - \$8,629.87 credit.

Q. Economic Dependency

The Authority receives approximately 38% of its revenues from the U.S. Department of Housing and Urban Development (HUD). If the amount of revenues received from HUD falls below critical levels, the Authority's operations could be adversely affected.

O. Consolidation

All material inter-fund accounts and transactions have been eliminated from the consolidated financial reports.

(2) Cash and Investments:

Cash and investments are stated at cost, which approximates fair value, and at June 30, 2006 consisted of the following:

<u>Account</u>	<u>Low Rent</u>
Cash - General Fund (Development and/or Operation)	<u>110,442.21</u>
Total Cash	<u>\$110,442.21</u>

<u>Account</u>	<u>Low Rent</u>
Investments - General Fund and Security Deposit Fund	<u>24,680.00</u>
Total Investments	<u>\$24,680.00</u>

All investments have a maturity of over 3 months and are not considered cash equivalents.

<u>Investment</u>	<u>Maturity</u>	<u>Amount</u>
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Middleville Housing Commission
Notes To Basic Financial Statements
June 30, 2006

Certificates of Deposit	09/22/2006	12,290.92
Certificates of Deposit	08/23/2006	<u>12,389.08</u>

Total Investments	<u>\$24,680.00</u>
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Custodial Credit Risk - The PHA's investments meet HUD's custodial credit risk requirements. The Housing Authority's investments are insured or collateralized by specific and identifiable U.S. government securities, which provides a continuing perfected security interest in the name of the Public Housing Authority.

Concentration of Credit Risk. Neither the Department of Housing and Urban Development or the Public Housing Authority places any limit on the amount the Public Housing Authority may invest in any one Depository. More than 5 percent of the Public Housing Authority's investments are with specific depository's. 65% of the Public Housing Authority's cash and investments are with the A.J. Edwards and 35% with the Hastings City Bank.

(3) Accounts Receivable:

Accounts receivable at June 30, 2006 consist of the following:

<u>Account</u>	<u>Low Rent</u>
Account Receivable - HUD	<u>1,986.76</u>
Total Account Receivable	<u>\$1,986.76</u>

(3) Land, Structures and Equipment:

Development, Capital Fund Improvements and Land, Structures and Equipment balances at June 30, 2006 consisted of the following:

<u>Account</u>	<u>Low Rent</u>
Land	134,240.25
Buildings	1,858,427.43
Furniture, Equipment & Machinery - Dwellings	47,782.96
Furniture, Equipment & Machinery - Admin.	33,333.79
Leasehold Improvements	46,679.09
Construction in Progress	17,547.52
Accumulated Depreciation	<u>(1,131,949.03)</u>
Total Land, Structures and Equipment	<u>\$1,006,062.01</u>

Capital asset activity for the year ended June 30, 2006 was as follows:

Middleville Housing Commission
Notes To Basic Financial Statements
June 30, 2006

<u>Account</u>	<u>Begin Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Land	134,240.25	.00	.00	134,240.25
Buildings	1,819,852.03	8,692.99	29,882.41	1,858,427.43
Furniture, Equipment & Machinery - Dwellings	47,782.96	.00	.00	47,782.96
Furniture, Equipment & Machinery - Admin.	42,600.87	1,026.96	(10,294.04)	33,333.79
Leasehold Improvements	76,561.50	.00	(29,882.41)	46,679.09
Construction in Progress	9,719.95	7,827.57	.00	17,547.52
Accumulated Depreciation	<u>(1,069,242.61)</u>	<u>(73,000.46)</u>	<u>10,294.04</u>	<u>(1,131,949.03)</u>
Total Land, Structures and Equipment	<u>\$1,061,514.95</u>	<u>(\$55,452.94)</u>	<u>.00</u>	<u>\$1,006,062.01</u>

The PHA capitalizes items costing at least \$150.00 with a life of more than one year.

Depreciation is computed using the straight line method as follows:

Buildings	40 years
CFP Improvements	22 years
Community Space Equipment	10 years
Dwelling Equipment	7 years
Office Equipment	5 years
Automobiles	5 years
Maintenance Equipment	5 years
Computers	3 years

(4) Accounts Payable:

Accounts payable at June 30, 2006 consist of the following:

<u>Account</u>	<u>Low Rent</u>
Accounts Payable - Vendors and Contractor	4,537.77
Accounts Payable - PILOT	8,298.94
Accounts Payable - Payrolls, Deductions & Contributions	<u>7,732.85</u>
Total Accounts Payable	<u>\$20,569.56</u>

Accrued Payment in Lieu of Taxes is applicable to the Public Housing Program. The Authority is obligated to make annual payments in lieu of property taxes based on the lesser of assessable value times the current tax rate or 10% of the dwelling rents net of utilities expense.

Middleville Housing Commission

Financial Data Schedule

June 30, 2006

Line	Account Description	Low Rent 14.850	Capital Fund 14.872	TOTAL (memo only)
ASSETS:				
CURRENT ASSETS:				
Cash:				
111	Cash - unrestricted	110,442		110,442
112	Cash - restricted - modernization and development	-		-
113	Cash - other restricted	-		-
114	Cash - tenant security deposits	-		-
100	Total cash	110,442	-	110,442
Accounts and notes receivables:				
121	Accounts receivable - PHA projects	-		-
122	Accounts receivable - HUD other projects	-	1,987	1,987
124	Accounts receivable - other government	-		-
125	Accounts receivable - miscellaneous	-		-
126	Accounts receivable- tenants - dwelling rents	-		-
126.1	Allowance for doubtful accounts - dwelling rents	-		-
126.2	Allowance for doubtful accounts - other	-		-
127	Notes and mortgages receivable- current	-		-
128	Fraud recovery	-		-
128.1	Allowance for doubtful accounts - fraud	-		-
129	Accrued interest receivable	-		-
120	Total receivables, net of allowances for doubtful accounts	-	1,987	1,987
Current investments				
131	Investments - unrestricted	24,680		24,680
132	Investments - restricted	-		-
Prepaid expenses and other assets				
142	Prepaid expenses and other assets	7,625		7,625
143	Inventories	1,972		1,972
143.1	Allowance for obsolete inventories	(99)		(99)
144	Interprogram - due from	1,987		1,987
146	Amounts to be provided	-		-
150	TOTAL CURRENT ASSETS	146,607	1,987	148,594
NONCURRENT ASSETS:				
Fixed assets:				
161	Land	134,240		134,240
162	Buildings	1,858,427		1,858,427
163	Furniture, equipment & machinery - dwellings	47,783		47,783
164	Furniture, equipment & machinery - administration	33,334		33,334
165	Leasehold improvements	46,679	17,548	64,227
166	Accumulated depreciation	(1,131,949)		(1,131,949)
160	Total fixed assets, net of accumulated depreciation	988,514	17,548	1,006,062
Other non-current assets:				
171	Notes and mortgages receivable - non-current	-		-
172	Notes and mortgages receivable-non-current - past due	-		-
174	Other assets	-		-
175	Undistributed debits	-		-
176	Investment in joint ventures	-		-
180	TOTAL NONCURRENT ASSETS	988,514	17,548	1,006,062
190	TOTAL ASSETS	1,135,121	19,534	1,154,656
LIABILITIES AND EQUITY:				
Liabilities:				

Middleville Housing Commission

Financial Data Schedule

June 30, 2006

Account Description		Low Rent 14.850	Capital Fund 14.872	TOTAL (memo only)
Current Liabilities:				
311	Bank overdraft	-	-	-
312	Accounts payable < 90 days	4,538	-	4,538
313	Accounts payable > 90 days past due	-	-	-
321	Accrued wage/payroll taxes payable	7,733	-	7,733
322	Accrued compensated absences	-	-	-
324	Accrued contingency liability	-	-	-
325	Accrued interest payable	-	-	-
331	Accounts Payable - HUD PHA Programs	-	-	-
332	Accounts Payable - PHA projects	-	-	-
333	Accounts payable - other government	8,299	-	8,299
341	Tenant security deposits	11,698	-	11,698
342	Deferred revenue	164	-	164
343	Current portion of L-T debt - capital projects	-	-	-
344	Current portion of L-T debt - operating borrowings	-	-	-
345	Other current liabilities	-	-	-
346	Accrued liabilities - other	-	-	-
347	Interprogram - due to	-	1,987	1,987
310	TOTAL CURRENT LIABILITIES	32,432	1,987	34,418
NONCURRENT LIABILITIES:				
351	Long-term debt, net of current - capital projects	-	-	-
352	Non-current liabilities-compensated absence	-	-	-
353	Non-current liabilities-FSS & other	-	-	-
350	TOTAL NONCURRENT LIABILITIES	-	-	-
300	TOTAL LIABILITIES	32,432	1,987	34,418
NET ASSETS:				
501	Investment in general fixed assets	-	-	-
Contributed Capital:				
502	Project notes (HUD)	-	-	-
503	Long-term debt - HUD guaranteed	-	-	-
504	Invested in Net Assets Net of Related Debt	988,514	17,548	1,006,062
505	Other HUD contributions	-	-	-
507	Other contributions	-	-	-
508	Total Invested in Net Assets Net of Related Debt	988,514	17,548	1,006,062
Restricted Net Asset Balance:				
509	Restricted for operating activities	-	-	-
510	Restricted for capital activities	-	-	-
511	Total Restricted Net Assets	-	-	-
512	Total Unrestricted Net Assets	114,175	-	114,175
513	TOTAL NET ASSETS	1,102,690	17,548	1,120,237
600	TOTAL LIABILITIES AND NET ASSETS	1,135,121	19,534	1,154,656
REVENUE:				
703	Net tenant rental revenue	121,579	-	121,579
704	Tenant revenue - other	-	-	-
705	Total tenant revenue	121,579	-	121,579
706	HUD PHA Operating Grants	42,996	19,708	62,704
706.1	Capital Grants	-	17,548	17,548
708	Other government grants	-	-	-
711	Investment income - unrestricted	3,757	-	3,757
712	Mortgage interest income	-	-	-
714	Fraud recovery	-	-	-
715	Other revenue	3,021	-	3,021
716	Gain or loss on sale of fixed assets	-	-	-
720	Investment income - restricted	-	-	-

Middleville Housing Commission
Financial Data Schedule
June 30, 2006

		Low Rent	Capital Fund	TOTAL
Account Description		14,850	14,872	(memo only)
700	TOTAL REVENUE	171,353	37,255	208,609
EXPENSES:				
Administrative				
911	Administrative salaries	34,057	-	34,057
912	Auditing fees	1,700	-	1,700
913	Outside management fees	-	-	-
914	Compensated absences	-	-	-
915	Employee benefit contributions- administrative	8,903	-	8,903
916	Other operating- administrative	14,151	-	14,151
Tenant services				
921	Tenant services - salaries	-	-	-
922	Relocation costs	-	-	-
923	Employee benefit contributions- tenant services	-	-	-
924	Tenant services - other	1,166	-	1,166
Utilities				
931	Water	5,712	-	5,712
932	Electricity	9,070	-	9,070
933	Gas	23,807	-	23,807
934	Fuel	-	-	-
935	Labor	-	-	-
937	Employee benefit contributions- utilities	-	-	-
938	Other utilities expense	-	-	-
Ordinary maintenance & operation				
941	Ordinary maintenance and operations - labor	33,060	-	33,060
942	Ordinary maintenance and operations - materials & other	4,250	-	4,250
943	Ordinary maintenance and operations - contract costs	18,522	-	18,522
945	Employee benefit contributions- ordinary maintenance	19,127	-	19,127
Protective services				
951	Protective services - labor	-	-	-
952	Protective services- other contract costs	-	-	-
953	Protective services - other	-	-	-
955	Employee benefit contributions- protective services	-	-	-
General expenses				
961	Insurance premiums	13,514	-	13,514
962	Other general expenses	-	-	-
963	Payments in lieu of taxes	8,299	-	8,299
964	Bad debt - tenant rents	-	-	-
965	Bad debt- mortgages	-	-	-
966	Bad debt - other	-	-	-
967	Interest expense	-	-	-
968	Severance expense	-	-	-
969	TOTAL OPERATING EXPENSES	195,338	-	195,338
970	EXCESS OPERATING REVENUE OVER OPERATING EXPENSES	(23,985)	37,255	13,270
971	Extraordinary maintenance	14,775	-	14,775
972	Casualty losses - non capitalized	-	-	-
973	Housing assistance payments	-	-	-
974	Depreciation expense	73,000	-	73,000
975	Fraud losses	-	-	-
976	Capital outlays- governmental funds	-	-	-
977	Debt principal payment- governmental funds	-	-	-
978	Dwelling units rent expense	-	-	-
900	TOTAL EXPENSES	283,114	-	283,114

Middleville Housing Commission
Financial Data Schedule
June 30, 2006

Account Description		Low Rent 14.850	Capital Fund 14.872	TOTAL (memo only)
OTHER FINANCING SOURCES (USES)				-
1001	Operating transfers in	19,708		19,708
1002	Operating transfers out	-	(19,708)	(19,708)
1003	Operating transfers from/to primary government			-
1004	Operating transfers from/to component unit			-
1005	Proceeds from notes, loans and bonds			-
1006	Proceeds from property sales			-
1010	TOTAL OTHER FINANCING SOURCES (USES)	19,708	(19,708)	-
1000	EXCESS (DEFICIENCY) OF TOTAL REVENUE OVER (UNDER) TOTAL EXPENSES	(92,053)	17,548	(74,505)
MEMO ACCOUNT INFORMATION:				
1101	Capital contributions			-
1102	Debt principal payments - enterprise funds			-
1103	Beginning Net Assets	1,186,113	-	1,186,113
1104	Prior period adjustments and Net Asset transfers	8,630	-	8,630
1105	Changes in compensated absence liability			-
1106	Changes in contingent liability balance			-
1107	Changes in unrecognized pension transition liability			-
1108	Changes in special term/severance benefits liability			-
1109	Changes in allowance for doubtful accounts - dwelling rents			-
1113	Maximum annual contributions commitment (per ACC)	-		-
1114	Prorata maximum annual contributions applicable to a period of less than twelve months			-
1115	Contingency reserve, ACC program reserve			-
1116	Total annual contributions available			-
1120	Unit months available	600		600
1121	Number of unit months leased	574		574

Middleville Housing Commission
Statement of Capital Fund Grant Costs
June 30, 2006

	<u>CFP 02</u>	<u>CFP 03</u>
Funds Approved	\$67,232	\$55,317
Funds Expended	<u>57,665</u>	<u>31,517</u>
Excess of Funds Approved	<u>\$9,567</u>	<u>\$23,800</u>
Funds Advanced	57,665	31,517
Funds Expended	<u>57,665</u>	<u>31,517</u>
Excess (Deficiency) of Funds Advances	<u>\$0</u>	<u>\$0</u>
	<u>CFP 04</u>	<u>CFP 05</u>
Funds Approved	\$64,063	\$56,748
Funds Expended	<u>12,813</u>	<u>11,063</u>
Excess of Funds Approved	<u>\$51,250</u>	<u>\$45,685</u>
Funds Advanced	12,813	11,063
Funds Expended	<u>12,813</u>	<u>11,063</u>
Excess (Deficiency) of Funds Advances	<u>\$0</u>	<u>\$0</u>

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Board of Commissioners
Middleville Housing
Commission
Middleville, Michigan

Department of Housing &
Urban Development
Office of Public Housing
Detroit, Michigan

**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with Government Auditing
Standards**

I have audited the financial statements of the Middleville Housing Commission as of and for the year ended June 30, 2006 and have issued my report thereon dated November 10, 2006 which opinion was qualified because of the limitation of the scope of my audit. Except as discussed in the following paragraph, I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

As discussed in finding number 1, I was unable to test the service organizations internal controls placed in operation for operating effectiveness; nor was I able to satisfy myself by other auditing procedures.

Internal Control Over Financial Reporting - In planning and performing my audit, I considered the Middleville Housing Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the Middleville Housing Commission's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as finding # 1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe that the reportable condition described above is a material weakness.

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Detroit, Michigan

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing
Standards*

Compliance and Other Matters - As part of obtaining reasonable assurance about whether the Middleville Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the audit committee, management and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountant
November 10, 2006

<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
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<u>Finding No. 1</u>	
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	<u>None</u>
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The Understanding Of The Service Organizations Internal Controls Was Not Tested – Scope Limitation Repeat Finding

Professional standards require the PHA Auditor to obtain an understanding of the controls in place by the service organization whose services were part of the PHA's information system.

Statement on Auditing Standards 94 (SAS 94) and Office of Management and Budget Circular A-133 (OMB A-133) require the testing of those controls. The required testing was not performed. This testing of controls is often referred to as a SAS 70 type II audit.

HUD has suggested that the PHA auditor is responsible for the internal control audit performed at the Service Organization.

Neither the PHA nor the Service Organization want to incur the additional audit costs necessary to have the service organizations controls tested.

To illustrate the SAS 70 audit costs under 2 different scenarios –

Illustrative Facts - A large fee accountant who services 300 PHA's has 6 offices and would require the majority of its clients to travel over 1,000 miles to visit its offices.

Example 1 – PHA responsible for the additional audit (SAS 70) costs.

Having the PHA incur the additional audit costs in this illustration would

Finding/Noncompliance

**Questioned
Costs**

Finding No. 1

None

**The Understanding Of The Service
Organizations Internal Controls
Was Not Tested – Scope Limitation
Repeat Finding**

cost HUD and the taxpayers about \$18,000,000. This was calculated based on a figure of \$10,000 per audit, per office, multiplied by 300 PHA's.

Example 2 – Service Organization responsible for the additional audit (SAS 70) costs.

Having the Service Organization incur the additional audit costs in this illustration would cost HUD and the taxpayers about \$60,000. This was calculated based on a figure of \$10,000 per audit, per office divided by 300 PHA's. The Service Organization would probably build in an overhead charge of \$200 per PHA to offset the costs.

HUD does not require Service Organizations to obtain SAS 70 audits thereby placing the responsibility on the PHA's and potentially wasting millions of dollars in additional audit fees.

Other items to consider in having the PHA auditor perform the required SAS 70 audits.

1. SAS 70 requires that the testing of controls include entering test data into the fee accountant's computer and evaluating output. Testing of the fee accountant's computer, as well as many other SAS 70 procedures requires the SAS 70 auditor to have a

<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
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<u>Finding No. 1</u>	
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	<u>None</u>
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<u>The Understanding Of The Service Organizations Internal Controls Was Not Tested – Scope Limitation Repeat Finding</u>
--

- specialized knowledge and extensive background. This is one reason that a \$10,000 estimated audit fee may be low.
2. Many PHA auditors do not possess the specialized computer background or knowledge required of SAS 70. A consultant may be needed to accomplish the required computer testing. This would result in additional audit fees.
 3. Testing of the fee accountant's computer requires that the testing be performed at the fee accountant's office.
 4. The locations of many fee accounting firms require travel of over 1000 miles. To require the PHA auditor to travel these great distances to test controls, at the fee accountant's office would add additional costs.
 5. Some large fee accounting firms service over a 100 PHA's. This would mean that over 100 PHA auditors would be required to visit one fee accountant's office to perform the same required SAS 70 testing. The fee accountant may be reluctant to allow 100 PHA auditors to disrupt their business.

As I have illustrated, it is more practical and cost efficient for the fee accountant to obtain one SAS 70 audit rather than having the PHA auditor perform these required procedures, which would be

Finding/Noncompliance

**Questioned
Costs**

Finding No. 1

None

**The Understanding Of The Service
Organizations Internal Controls
Was Not Tested – Scope Limitation
Repeat Finding**

duplicated needlessly, and thus waste taxpayers money.

SAS 94 states that when assessing the effectiveness of the design and operation of controls in complex IT environments, it is necessary for the auditor to test these controls. The decision to test controls is not related to the size of the firm but to the complexity of the IT environment.

HUD has stated in their response to prior audit findings that the (PHA) auditor must perform additional procedures to obtain an understanding of the fee accountant's system of internal control.

I must explain that obtaining an understanding of the system of internal control has never been a problem. Internal control questionnaires and Service Organization procedures manuals and flow charts are examples of obtaining the understanding.

The problem with this audit procedure is how the required testing of that understanding of the fee accountant's system of internal control is to take place. Neither the Fee Accountant nor the PHA is cooperating to insure that the testing takes place. This lack of cooperation will result in a scope limitation and a qualified audit opinion.

Finding/Noncompliance

**Questioned
Costs**

Finding No. 1

None

**The Understanding Of The Service
Organizations Internal Controls
Was Not Tested – Scope Limitation
Repeat Finding**

Recommendation

If HUD continues to suggest that the PHA auditors be responsible for the SAS 70 testing requirement, then I would recommend that HUD instruct the PHA to obtain additional SAS 70 audit bids when requesting proposals for their regular audit. I would also recommend that HUD include in their instructions that internal controls need to be tested at the fee accountant's office.

PHA Reply and Corrective Action Plan

We will follow HUD's instructions.